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Budget Update - May Revise

This morning the administration released their updated budget proposal, the May Revise, which includes a proposed plan to fully fund CalSTRS over 30years. The additional revenues available to community colleges are much less than anticipated as the administration takes a very conservative approach to estimates in economic growth for next year. This approach actually decreases Proposition 98 funding from the January proposal in the budget year. However, the administration still proposes to add programmatic funding by rearranging how deferrals are paid off across fiscal years. The rearrangement of deferral payments does not change the administration's proposal to pay off all funding deferrals by the end of the 2014-15 budget, it simply shifts how those payments would be made.

In total general fund revenue, the May Revise estimates an increase of$2.4 billion across the 2012-13 through 2014-15 budget years. In taking their conservative approach, the administration classifies these as largely a one-time increase in 2013-14.

We are continuing to analyze the details of the proposal and get additional information. We will have more in depth analysis in the coming days, including in Monday's Sacramento Report.

Community Colleges

From the January budget proposal, the major components of the May Revise proposal are as follows:

- Decrease in proposed growth funding from 3% to2.75% ($16 million)
- Decrease in COLA from 0.86% to 0.85% ($1.2million)
- $50 million in CTE funding
- This would go to the existing Economic and Workforce Development program in the State Chancellor's Office.
- The intent is to fund community colleges to develop, enhance, and expand CTE programs that build upon existing regional capacity to better meet regional labor market demands.
- Decrease of $27 million for maintenance and instructional equipment and moving all of the funding to deferred maintenance.
- Total of $148 million in funding
- Elimination of match requirement for 2014-15
- $6 million for technology infrastructure

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- $1.4 million one-time and $4.6 million ongoing
- Upgrade bandwidth and replace technology equipment at each community college
- Decrease of $1.5 million for Proposition 39
- Property tax and fee adjustments of $42.2million

The administration's May Revise also contains a proposal to, beginning with the 2015-16 budget, increase funding for CDCP courses to the rate provided to credit courses.

<u>CalSTRS</u>

The May Revise also proposes a long-term solution to the CalSTRS unfunded liability and to fully fund the system in 30 years. The May Revise plan sets forth a solution in which all parties, employees, employers and the state would contribute to address the unfunded liability. In the first year, the total contribution increase from all three parties would be $450 million. However, the plan would increase total contributions from the employees, employers, and the state to over $5 billion annually. Currently total contributions equal 19.3% of payroll. Under the May Revise proposal, that would increase to 35.7%.

Under the CalSTRS funding proposal:

- Employee contributions would increase from 8% to10.25% over the next three years.
- Employer contributions would increase from 8.25%to 19.1% over the next seven years.
- The state contribution would increase from 3% in2013-14 to 6.3% by 2016-17.

The increases will not be uniform, but will differ from year-to-year. We do not have the schedule, but the rate increases will likely be lower initially, increasing over the course of the phase in. Additionally, the administration seems to have taken the position that increases in employer contributions do not require an increase in the Proposition 98 guarantee, as the budget documents indicate that contribution increases for school and community college districts "will be paid of existing revenue sources." Having a 30 year goal but rather than 100% funding, target a funding level closer to 80% to 90% would make it easier on the districts as rates increase.

<u>Rainy Day Fund</u>

The proposed rainy day fund is similar to the deal announced a few days ago, reached between the administration and the Legislature. The measure will:

- Make deposits in the rainy day fund whenever capital gains revenues increase to more than 8% of general fund tax revenues.
- 1.5% of annual general fund will be set aside each year.
- Half would make payments toward the "wall of debt"
- Half would be saved
- The fund could not be greater than 10% of revenues.
- Withdraw funds only when spending falls below the highest level from the past three years.
- Create a Proposition 98 reserve.

- Spikes in funding would be saved for future years
- Funding could not be placed in the reserve until the existing maintenance factor is fully paid off.

In the May Revise, the administration proposes to set aside 3% of revenues in 2014-15, with half ($1.6 billion) to be saved, and half to make a payment to pay off the Economic Recovery Bonds.

Next Steps

Since the administration took such a conservative approach to revenue estimates, many education groups could push for higher revenue estimates or propose that some of the deferral be redirected into programmatic funding and have the final payoff pushed out by a year or two. We will have the opportunity to weigh in, along with the other groups, at the first hearings which will begin this week.

Next, the budget committees will meet to hear the administration's proposal and likely provide for some changes. It is possible that we could see the Legislature pushing for higher revenue estimates in order to provide for more programmatic funding, given the conservative approach that this administration took. Without additional funding available, many groups will be likely be attempting to redirect the growth and student equity funding to get their favorite program funded.

Subcommittees will meet and vote on items in the coming weeks and any differences between the two Houses would likely be ironed out in a Conference Committee. We anticipate that a budget will be passed and signed by July 1st.